3
351.7232
L71hfa
1996

Legislative Audit Division

State of Montana

Report to the Legislature

November 1996

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1996

Montana Health Facility Authority

Department of Commerce

This report contains four recommendations for improving Authority operations. Items addressed in the report include:

- **Direct loan program.**
- **Authorized use of fee revenues.**
- **Capital Reserve Account.**
- **Documentation of fee assessment.**

STATE DOCUMENTS COLLECTION

JAN 21 1997

MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

PLEASE RETURN

Direct comments/inquiries to:
Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705

96-29

3 0864 1004 7575 8

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act of 1984 and Amendments of 1996, and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1995 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone: (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
PO Box 201705
Helena MT 59620-1705
Phone: (406) 444-3122

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson, Vice Chairman
Senator Sue Bartlett
Senator Reiny Jabs
Senator Tom Keating
Senator Ken Miller
Senator Linda Nelson

Representative Ernest Bergsagel, Chairman
Representative Beverly Barnhart
Representative A. R. "Toni" Hagener
Representative Bob Keenan
Representative Robert Pavlovich
Representative Bruce Simon

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey

Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

November 1996

The Legislative Audit Committee
of the Montana State Legislature:

This audit report contains our opinion letter on the financial statements of the Montana Health Facility Authority of the Department of Commerce for the two fiscal years ended June 30, 1996. The report also contains four recommendations for improving authority operations and complying with state laws. We would like to thank the executive director and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Room 135, State Capitol Building, PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784

Legislative Audit Division

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1996

Montana Health Facility Authority

Department of Commerce

Members of the audit staff involved in this audit were Brenda Bokovoy, Tori Hunthausen, Wayne Kedish, and Charles Nemec.

Table of Contents

	Appointed and Administrative Officials	ii
	Report Summary	iii
Introduction	Introduction	1
	Background	1
	Pooled Loan Program	2
	Single Project Financing	3
	Private Placement Program	3
	Direct Loan Program	4
Findings and Recommendations	Direct Loan Program	5
	Authorized Use of Fee Revenues	6
	Capital Reserve Account	6
	Documentation of Equitable Fee Assessment	7
Independent Auditor's Report & Agency Financial Statements	Independent Auditor's Report	A-3
	Balance Sheets - Enterprise Fund June 30, 1996 and 1995	A-5
	Statements of Revenues, Expenses, and Changes in Retained Earnings Enterprise Fund for Fiscal Years Ended June 30, 1996 and 1995	A-6
	Statement of Cash Flows Enterprise Fund for Fiscal Years Ended June 30, 1996 and 1995	A-7
	Notes to the Financial Statements	A-9
Agency Response	Montana Health Facility Authority	B-3

Appointed and Administrative Officials

Board Members

Dr. Amos R. Little, Jr., Chairman
Physician
Helena
01-01-97

Joyce Asay
Hospital Administrator
Forsyth
01-01-97

Sidney K. Brubaker
Banker
Terry
01-01-99

Gayle Carpenter
Montana Hospital Association
Helena
01-01-97

Dalyce K. Flynn
Development Consultant
Townsend
01-01-99

Gregory L. Hanson
Attorney
Missoula
01-01-99

Michael P. Varone
Banker
Helena
01-01-97

Administrative Staff

Jerry R. Hoover, Executive Director

Michelle Barstad, Bond Program Officer

Geri Burton, Bond Program Assistant

Terry Juneau, Accountant

Montana Health Facility Authority

This financial compliance audit report contains the results of the audit for the two fiscal years ended June 30, 1996. The previous audit report contained no recommendations to the Authority. The current audit report contains four issues. Two recommendations relate to the Authority's Direct Loan Program, established in fiscal year 1993-94. Under current statute, the Authority does not have specific authorization to operate the program. In addition, a portion of the Authority's fund balance funds the program which current statute does not specifically allow. The remaining two recommendations address the funding of the statutorily established capital reserve account, and documentation procedures for fee reductions or waivers granted by the Authority.

We issued an unqualified opinion on the financial statements contained in the report. This means the reader may rely on the presented financial information and the supporting information on the Statewide Budgeting and Accounting System.

Report Summary

The listing below serves as a means of summarizing the recommendations contained in the report, the Authority's response thereto, and a reference to the supporting comments.

Recommendation #1 — We recommend the Authority seek legislation to operate the Direct Loan Program or discontinue the program. 5

Authority Response: Concur. See page B-3.

Recommendation #2 — We recommend the Authority seek legislation to expand the authorized use of revenue or stop funding direct loans. 6

Authority Response: Concur. See page B-3.

Recommendation #3 — We recommend the Authority seek legislation to clarify the funding of the capital reserve account. 7

Authority Response: Concur. See page B-4.

Recommendation #4 — We recommend the Authority:

A. Revise the fee structure established in rule, to reflect the Authority's practice of charging fees based on estimated cost; and,

B. Establish documentation procedures to ensure equitable considerations regarding the charging, reducing or waiving of fees imposed by the Authority. 8

Authority Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Health Facility Authority (the Authority) for the two fiscal years ended June 30, 1996.

The objectives of our audit were to:

1. Determine if the Authority complied with applicable state laws and regulations.
2. Determine if the financial statements of the Authority present fairly its financial position, results of operations, and cash flows for the two fiscal years ended June 30, 1996.
3. Make recommendations for the improvement of management and internal controls of the Authority.

Background

The Montana Health Facility Authority was created by the 1983 Legislature. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Authority is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. The Authority is attached to the Department of Commerce for administrative purposes. Financial accounting for the Authority's operation is performed by the department's Management Services Division.

The Authority administers four programs: the Pooled Loan Program, the Single Project Financing Program, the Private Placement Program, and the Direct Loan Program. The programs are discussed in more detail in the following sections. With the exception of bonds issued on behalf of state entities, the revenue bonds issued under the programs of the Authority do not constitute a debt or liability of the state of Montana or any political subdivision thereof. Therefore, the bonds are not reflected in the financial statements of the Authority. Bonds issued on behalf of state entities, such as the Montana Developmental Center, appear on the financial records of the entity rather than the Authority. Additional information on amounts and maturity dates of the revenue bonds is

disclosed in note 2 to the financial statements on pages A-10 through A-13.

Pooled Loan Program

The Pooled Loan Program provides low interest loans for eligible health institutions, as defined in section 90-7-104, MCA, to finance or refinance land, buildings, equipment, and improvement costs. Under this program the Authority issues revenue bonds, the proceeds of which are loaned to health institutions. The interest rates of the loans include bond interest costs. The Authority presently administers six different Pooled Loan Programs: the 1985 Pooled Loan Program, three Community Provider Pooled Loan Programs, the 1992 Hospital Pooled Loan Program and the 1994 Master Loan Program.

The Authority, under the Master Loan Program, issued Health Care Revenue Bonds, Series A through D, in the amount of $4,575,000 on October 19, 1994. The Authority loaned the proceeds of the bonds to three hospitals and a long-term care facility for the purposes of financing or refinancing the costs of certain capital improvements or equipment of the respective borrowers. The Authority also made a $300,000 loan from its own funds to one of the health facilities as part of this financing arrangement.

On October 15, 1995, the Authority issued Health Care Revenue Bonds under the Master Loan Program Series 1995A in an amount of $5,645,000. The Authority loaned the proceeds to a health care corporation to undertake extensive remodeling of portions of its hospital facility, to purchase certain equipment, and to reimburse the hospital for costs of the project already completed.

The Board of Investments (the Board), pursuant to Title 17, chapter 6, MCA, and the Authority, pursuant to section 90-7-320, MCA, have entered into capital reserve account agreements for the two bond issues described above. In accordance with the agreements, the Board has irrevocably agreed to lend to the Authority funds sufficient to ensure timely payment of the principal and interest of the bonds. The loans, if necessary, will be made by the Board from the Permanent Coal Trust Fund or any other legally available funds administered by the Board.

Single Project Financing

The Single Project Financing Program authorizes tax-exempt financing on a project-by-project basis. Bonds or notes are issued for individual projects. Interest and other associated costs are paid by the participating institutions. A portion of the net proceeds for the single project bond issues is used to pay costs associated with issuing the bonds, as well as to establish required debt reserves.

On July 26, 1994, the Authority issued $13,100,000 of Series 1994 Health Care Revenue Bonds for the Montana Developmental Center. Net proceeds of $10,500,000 were used to finance the acquisition, construction, equipping of new facilities and renovation of certain existing facilities for use at the Developmental Center in Boulder, Montana. The remaining proceeds were used to provide for capitalized interest on the bonds, to establish a reserve fund required by the Bond Indenture and to pay costs associated with issuing the bonds.

Private Placement Program

A private placement is the direct sale of a bond or note to a limited number of investors. In a private placement, the issuer, whether the Authority or city or county government, issues a bond or note on behalf of the health facility. The bond or note is privately placed with an investor who signs a letter stating the bond/note will not be immediately resold to the general public. A private placement generally reduces underwriting and bond issuance expenses by minimizing the costs and time involved in marketing the debt. It is usually a less costly method of financing projects under $2 million. The Authority's role in this type of financing is to provide technical support to the client.

On May 11, 1995 the Authority issued a $558,721 Revenue Note, Series 1995, and privately placed it with General Electric Capital Corporation. Proceeds were used to purchase and install a CT Scanner at Livingston Memorial Hospital.

On October 1, 1995 the Authority provided technical support to Mission Mountain Enterprises, Inc., community provider for persons with developmental disabilities, in the private placement a $760,000 Developmental Disabilities Facilities Revenue Bond,

Series 1995 issued by Lake County. The proceeds were used to construct two residential facilities and a work activity center.

On June 21, 1996 the Authority provided technical support to REACH, Inc., a community provider for persons with developmental disabilities, in the private placement a $260,000 Developmental Disabilities Facilities Revenue Bond, Series 1996 issued by Gallatin County. The proceeds were used to construct a residential facility.

Direct Loan Program

The Authority has established a program called the Direct Loan Program, whereby the Authority makes loans to eligible health facilities from its own funds. The purpose of the program is to provide financing for health care providers with less than an investment grade rating. Eligible projects include construction, renovation, facility acquisition, refinancing of qualified outstanding debt, and the purchase of equipment. The maximum amount loaned is $100,000 for a maximum five year term. Loans are on a first come, first serve basis. Additional information regarding the loans outstanding is disclosed in note 3 to the financial statements.

Direct Loan Program

The Authority believes there is a need to provide its clients the option of short term loans at competitive interest rates, to finance small amounts for health facility projects. In fiscal year 1993-94, the Authority established the Direct Loan Program, whereby the Authority makes loans to eligible health facilities from its fund balance. Eligible projects include facility construction, renovation, acquisition, equipment purchases, and refinancing outstanding debt of eligible facilities.

During the audit we determined that while the Authority has broad authorization to issue bonds or incur other debt to carry out its purpose, the Authority does not have authority to establish a loan program from its fund balance. Authority personnel explain that the program provides funding when minor projects exist but not in the volume to justify a bond issue; however, they agree that the specific authorization for the program is not in statute. If the Authority believes the Direct Loan Program is necessary, it should seek specific authorization to operate the program.

The Authority has set aside approximately $500,000 for the program, plus aggregate loan interest payments and investment earnings. Loan terms include a maximum loan amount of $100,000 over a maximum term of five years. At June 30, 1996, the Authority had $296,633 in notes receivable for the three loans outstanding, and has designated an additional $238,816 for the program.

Recommendation #1

We recommend the Authority seek legislation to operate the Direct Loan Program or discontinue the program.

Authorized Use of Fee Revenues

The Authority collects fees from participating facilities in connection with making and servicing their debt. The Authority's revenues have exceeded operating costs during the past years of operation, and the excess revenues have accumulated. By law, the Authority is allowed to retain excess revenues for operating reserves and reasonable allowances for losses that may be incurred. The Authority's Board of Directors has established operating and loss contingency reserve amounts as determined necessary. However, the Authority has also accumulated an additional $500,000 in excess revenues which funds the Direct Loan Program.

The purposes for which Authority fees may be used are specifically discussed in section 90-7-211, MCA, and do not include providing a funding source for the Direct Loan Program. Authority personnel explained that its clients identified a financing need and the Authority sought a method to meet the needs of the health care community. If the Authority determines the excess revenue is an appropriate funding source for the Direct Loan Program, personnel should seek legislation to expand the authorized use of fee revenue to include funding the program or stop funding loans with excess revenues.

Recommendation #2

We recommend the Authority seek legislation to expand the authorized use of revenue or stop funding direct loans.

Capital Reserve Account

State law establishes a capital reserve account as security for the payment of bonds and notes issued by the Authority. The Authority and the Board of Investments (BOI) have entered into capital reserve account agreements to enhance the credit ratings for bonds issued under the Master Loan Program, the Hospital Pooled Loan Program, and the Montana Developmental Center bond issue. In accordance with the agreements, the BOI has irrevocably agreed to lend the Authority funds sufficient to ensure timely payment of principle and interest on the bonds. Authority policy has established a reserve amount equal to two and one-half percent of the par amount of the

outstanding bonds that are enhanced by the Board of Investments. At June 30, 1996 the reserve totaled $662,875.

Section 90-7-317, MCA, specifies what revenue the Authority shall deposit into the reserve account, including investment income and revenues from fees and charges imposed by the Authority. This would cover all fee revenues received. Authority personnel had not interpreted state law to read all revenues from fees and charges imposed be deposited to the reserve account. Authority policy requires only fifty percent of the Authority assessed annual fee for bonds enhanced by BOI, to be deposited into the reserve account, with the remaining 50 percent to be spent on operations. Authority personnel agree that clarification should be sought regarding the funding of the capital reserve account.

Recommendation #3

We recommend the Authority seek legislation to clarify the funding of the capital reserve account.

Documentation of Equitable Fee Assessment

When a loan application is made to the Authority by a health facility, state law allows the Authority to assess an initial planning fee, in an amount to be determined by the Authority. The administrative rules include a fee structure based on a percentage of the principal amount of debt the Authority has issued. The rules allow the Authority, by resolution, to waive or reduce the amount of the fees if it determines the waiver or reduction to be in the best interest of the Authority, the facility, or the users of the facility. During the audit period, more often than not, the Authority granted fee reductions. A result of not charging in accordance with the adopted fee structure is that it may appear one facility may be paying higher fees than a facility receiving similar financing. During the audit we determined that there is insufficient documentation of Authority considerations indicating the appropriateness of a fee reduction or waiver.

We reviewed three eligible projects and determined that the fee actually collected for two of the projects differed from the administrative rule fee structure. Fees ranged from charging in accordance with the fee structure, to charging $80,418 less than the calculated fee amount. Authority personnel explained that an estimated cost of issuance is determined by considering past experience with repeat clients, general knowledge of the facility's background, whether or not the issue is a stand alone or an issue providing financing to multiple facilities, and submitting a competitive fee proposal. The estimated cost of issuance generally differs from the adopted fee structure. Personnel explained that while equitable calculations are prepared, the documentation of all considerations warranting a reduction or waiver of fees is not complete. If estimating a cost of issuance is more equitable than calculating a fee according to a percentage of financing, the Authority should revise its fee structure and document the estimated cost calculation on a consistent basis.

Recommendation #4

We recommend the Authority:

A. Revise the fee structure established in rule, to reflect the Authority's practice of charging fees based on estimated cost; and,

B. Establish documentation procedures to ensure equitable considerations regarding the charging, reducing or waiving of fees imposed by the Authority.

Independent Auditor's Report & Agency Financial Statements

MONTANA LEGISLATIVE BRANCH

Legislative Auditor
Scott A. Seacat

Legal Counsel:
John Northey

Deputy Legislative Auditors:
Mary Bryson
Operations and EDP Audit
James Gillett
Financial-Compliance Audit
Jim Pellegrini
Performance Audit

LEGISLATIVE AUDIT DIVISION

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet - Enterprise Fund of the Montana Health Facility Authority (Authority) for each of the two fiscal years ended June 30, 1996 and 1995, and the related Statements of Revenues, Expenses, and Changes in Retained Earnings, and Statements of Cash Flows for each of the two fiscal years then ended. The information contained in these financial statements is the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Health Facility Authority as of June 30, 1996 and 1995, and the results of operations and cash flows for the two years then ended, in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

August 30, 1996

Room 135, State Capitol Building, PO Box 201705 Helena, MT 59620-1705
Phone (406) 444-3122 FAX (406) 444-9784

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
BALANCE SHEETS - ENTERPRISE FUND
JUNE 30, 1996 AND 1995

ASSETS:	*1996*	*1995*
Cash & Cash Equivalents (Note 1)	$ 238,908	$ 392,957
Interest Receivable	18,189	6,848
Accounts Receivable	13,502	15,339
Short Term Notes Receivable (Note 3)	86,081	85,459
Long Term Notes Receivable (Note 3)	210,552	296,633
Due From Other Funds	2,242	73
U.S. Treasury Notes (Note 4)	604,660	199,712
Prepaid Expenses	370	1,068
Fixed Assets (Note 1)	9,980	5,445
Total Assets	$ 1,184,484	$ 1,003,534
LIABILITIES AND RETAINED EARNINGS:		
Liabilities:		
Deferred Revenue	$ 745	$ 746
Due to Other Funds	14,465	11,643
Compensated Absences	18,962	17,977
Total Liabilities	$ 34,172	$ 30,366
Retained Earnings:		
Designated-Loan Loss Reserve (Note 8)	$ 662,875	$ 540,625
Designated-Direct Loan Program (Note 8)	238,816	0
Designated-Operating Reserve (Note 8)	248,621	432,543
Total Retained Earnings	$ 1,150,312	$ 973,168
Total Liabilitites & Retained Earnings	$ 1,184,484	$ 1,003,534

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN RETAINED EARNINGS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1996 AND 1995

	1996	*1995*
REVENUES:		
Service Fees	$ 257,007	$ 240,001
Interest Earnings	19,557	12,256
Investment Earnings	40,036	27,753
Total Revenues	$ 316,600	$ 280,010
EXPENSES:		
Personal Services	$ 54,882	$ 54,490
Contracted Services	45,716	49,388
Supplies and Materials	1,453	1,746
Communications	3,724	3,566
Travel	22,723	10,863
Rent	56	32
Other Expenses	9,582	12,380
Depreciation - Equipment	985	1,337
Loss on Sale of Fixed Asset	15	16
Total Expenses	$ 139,136	$ 133,818
Excess of Revenues Over Expenses	$ 177,464	$ 146,192
Prior Year Adjustment	$ (320)	$ 26
Excess Revenues Plus Net Prior Year Adjustment	$ $177,144	$ 146,218
Retained Earnings Beginning of Period	$ 973,168	$ 826,950
Total Retained Earnings	$ 1,150,312	$ 973,168

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1996 AND 1995

	1996	*1995*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts for Sales and Services	$ 112,952	$ 106,904
Payments to Suppliers for Goods and Services	(82,526)	(78,293)
Collection for Principal & Interest on Loans	105,015	21,572
Payments to Employees	(54,853)	(52,498)
Other Operating Revenue	147,142	122,304
Cash Payments for Loans	0	(300,000)
Net Cash Provided by (Used for) Operating Activities	$ 227,730	$ (180,011)
CASH FLOWS FROM CAPITAL & RELATED FINANCING ACTIVITIES:		
Acquisition of Fixed Asset	$ (5,535)	$ (2,000)
Net Cash Used for Capital & Related Financing Activities:	$ (5,535)	$ (2,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of Investments (Note 4)	$ 200,000	$ 100,000
Purchase of Investments (Note 4)	(600,000)	(100,000)
Interest on Investments	23,756	23,628
Net Cash Provided by (Used for) Investing Activities:	$ (376,244)	$ 23,628
Net Increase (Decrease) in Cash and Cash Equivalents	$ (154,049)	$ (158,383)
Cash & Cash Equivalents, July 1	$ 392,957	$ 551,340
Cash & Cash Equivalents, June 30	$ 238,908	$ 392,957

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA HEALTH FACILITY AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS (CONTINUED)
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 1996 AND 1995

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 177,144	$ 146,218
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIEDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	985	1,337
Loss on Sale of Equipment	15	16
Interest on Investments	(40,036)	(27,753)
Change in Assets & Liabilities:		
Increase (Decrease) in Accounts Payable	2,814	262
Increase (Decrease) in Compensated Absences Payable	985	752
Decrease (Increase) in Accounts Receivable	1,837	(10,793)
Decrease (Increase) in Prepaid Expense	698	709
Decrease (Increase) in Long Term Notes Receivable	86,081	(215,101)
Decrease (Increase) in Short Term Notes Receivable	(623)	(75,585)
Decrease (Increase) in Due From Other Funds	(2,170)	(73)
Total Adjustments	$ 50,586	$ (326,229)
Net Cash Provided by (Used for) Operating Activities	$ 227,730	$ (180,011)

 The accompanying notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Authority's Enterprise Fund uses the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable.

Reporting Entity

The preceding financial statements are prepared from the Statewide Budgeting and Accounting System (SBAS) with adjustments and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in SBAS recorded for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or changes in financial position of the state of Montana.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

Enterprise Fund

The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges.

Cash and Cash Equivalents

Cash and Cash Equivalents as presented on the accompanying Statements of Cash Flows represents the Authority's cash of $54,847 and $7,514 as of June 30, 1995 and 1996 respectively and the Short-Term Investment Pool balance of $338,110 and $231,394 for fiscal year 1995 and 1996, respectively.

Fixed Assets

Fixed assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The accompanying financial statements reflect the liability.

2. Revenue Bonds and Notes Outstanding

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by participating health care institutions, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of security and liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans financed with bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the health facilities. Other loan payments are secured by a Master Note issued under a Master Trust Indenture of an Obligated Group or by standby letters of credit from banks rated "A" or better.

These liabilities do not constitute a debt or liability to the state of Montana or any political subdivision thereof, with the exception of bonds issued and outstanding for the Montana Developmental Center, and therefore, are not reflected in the financial statements of the Authority.

Revenue Bonds Payable:

Issue	Period Outstanding	Type of Interest Rate	Bonds Outstanding at June 30, 1996	Bonds Outstanding at June 30, 1995
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985 A	1985-2015	Variable	$37,200,000	$37,300,000
Health Care Revenue Bond (Community Provider Pooled Loan Program) Series 1988	1988-2003	Fixed	980,000	1,055,000
Hospital Facilities Refunding Revenue Bonds (St. Peter's Community Hospital in Helena) Series 1989	1989-2010	Fixed	7,600,000	7,905,000
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1990	1990-2010	Fixed	12,470,000	12,925,000
Health Care Revenue Bond (Community Provider Pooled Loan Program) Series 1990	1990-2010	Fixed	4,925,000	5,136,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	36,000,000	36,000,000
Hospital Facilities Revenue Bonds (Sisters of Providence - St. Patrick Hospital in Missoula, Columbus Hospital in Great Falls, and St. Joseph Hospital in Polson) Series 1991	1991-2012	Fixed	48,255,000	50,510,000
Hospital Facilities Revenue Bonds (Great Falls Deaconess Medical Center) Series 1991	1991-2011	Fixed	0*	11,015,000
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital in Helena) Series 1991	1991-2011	Fixed	5,970,000	6,200,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	29,450,000	30,250,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 D	1991-2000	Fixed	4,035,000	4,990,000
Health Care Revenue Bonds (Community Provider Pooled Loan Program) Series 1991 A&B	1991-2011	Fixed	3,409,000	3,553,000

* Defeased June 27, 1996

Issue	Period Outstanding	Type of Interest Rate	Bonds Outstanding at June 30, 1996	Bonds Outstanding at June 30, 1995
Hospital Facilities Revenue Bonds (Hospital Pooled Loan Program) Series 1992	1992-2007	Fixed	3,585,000	3,950,000
Health Care Revenue Bonds (Richland Opportunities, Inc., Project) Series 1993	1993-2013	Fixed	182,275	187,907
Hospital Facilities Revenue Refunding Bonds (Bozeman Deaconess Foundation Project) Series 1993	1993-2008	Fixed	12,700,000	13,460,000
Hospital Facility Revenue Bonds (Holy Rosary Hospital) Series 1993	1993-2020	Fixed	17,850,000	18,080,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corporation) Series 1994	1994-2023	Fixed	47,410,000	49,180,000
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Fixed and Variable	58,870,000	58,870,000
Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994	1994-2019	Fixed	13,030,000	13,100,000
Health Care Facilities Revenue Bonds (Master Loan Program - Community Memorial Hospital Project) Series 1994A	1994-1999	Fixed	465,000	570,000
Health Care Facilities Revenue Bonds (Master Loan Program - Lutheran Retirement Home, Inc. Project) Series 1994B	1994-2014	Fixed	2,000,000	2,000,000
Health Care Facilities Revenue Bonds (Master Loan Program - Valley Hospital Project) Series 1994C	1994-1999	Fixed	570,000	695,000
Health Care Facilities Revenue Bonds (Master Loan Program - Valley Hospital Project) Series 1994D (Taxable)	1994-2004	Fixed	1,220,000	1,310,000
Health Care Facilities Revenue Bonds (Master Loan Program-Northern Montana Obligated Group Project) Series 1995A	1995-2015	Fixed	5,645,000	0
Health Care Facilities Revenue Bonds (Northern Montana Care Center Project) Series 1995B	1995-2015	Fixed	6,090,000	0
Revenue Bonds Outstanding			$359,911,275	$368,241,907

Stated maturities on Revenue Bonds Payable are as follows:

Maturing In Year Ended June 30	Bond Principal Payments
1997	$ 9,858,039
1998	10,881,476
1999	11,111,944
2000	12,170,446
2001	12,267,984
2002-2025	303,621,386
Total	$359,911,275

The bonds are payable solely from loan repayments to be made by health institutions pursuant to loan agreements and, further, from the funds created by the indentures and investment earnings thereon.

Revenue Notes Receivable:

Issue	Due	Interest Rate	June 30, 1996	June 30, 1995
West Mont Home Health Services, Inc., Series 1985 Hospital Revenue Note	1987-2004	2% under Bank Floating Rate	$195,641	$225,781
Livingston Community Hospital, MHFA Private Placement Revenue Note	1995-2000	7.09%	442,814	539,913
Total			$638,455	$765,694

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

3. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program and amortized initial planning fees. Since the loans are made from the Authority's fund balance and not through the issuance of bonds or notes, a receivable is presented. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

Revenue Notes Receivable:

Issue	Due	Interest Rate	June 30, 1996	June 30, 1995
St. Peter's Hosp., amortized initial planning fee	1989-1999	N/A	$ 3,285	$ 4,425
Residential Support Services, MHFA Direct Loan	1994-2009	8% thru 3/99 then re-set at BOI commercial + 2%	45,741	47,729
Mineral Community Hospital, MHFA Direct Loan	1994-1999	6.07	22,607	29,939
St. John's Nursing Home, MHFA Direct Loan	1994-1998	4.675%	225,000	300,000
Total			$296,633	$382,093

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

4. Investments

U.S. Treasury Notes constitute the investments made by the Authority. At June 30, 1995, the Authority owned one $200,000 par value U.S. Treasury Notes valued at $199,712, which included a discount of $288. At June 30, 1996, the Authority owned one $600,000 par value U.S. Treasury Note valued at $604,660, which included a premium of $4,660. At June 30, 1996, $600,000 of the U.S. Treasury Notes were loaned under a security lending agreement with the state's agent.

5. Pension Plan

The Authority and its one employee contribute to the Public Employees' Retirement System (PERS), a cost sharing, multiple employer, defined benefit pension plan. Established in 1945 and governed by Title 19, Chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service, at age 65 regardless of length of service or at 30 years of service regardless of age. A reduced retirement benefit may be

taken with 25 years of service or at age 50 with a minimum of five years of service. Retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. Vesting occurs once membership service totals five years. The Authority and its employee were required to contribute 6.70 and 6.70 percent of annual compensation in fiscal years 1994-95 and 1995-96, respectively.

The Authority's covered payroll was $41,223 and $42,484 and PERS contributions were $2,763 and $2,847 in fiscal years 1994-95 and 1995-96, respectively.

Actuarial valuations are performed at PERS every two years. In calculating the pension benefit obligation for fiscal years 1994-95 and 1995-96, respectively, the actuary assumed a return on investments of 8 percent in each year, salary inflation increases of 6.25 and 6.25 percent, and no change in post retirement benefits.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Authority is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total state basis, not agency basis.

The pension benefit obligation at June 30, 1995, for PERS as a whole was $1,591,420,109. The system's net assets available for benefits at cost on June 30, 1995, was $1,276,855,695 leaving an overall unfunded pension benefit obligation of $314,564,414. Actuarial valuations for fiscal year 1996 were not available at the compilation of this report. The Authority is not responsible for any state system unfunded liability.

Six-year historical trend information showing the PERS progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1996, annual financial report.

6. Subsequent Events and Related Party

The Authority culminated four bond issues subsequent to June 30, 1996. On August 1, 1996, the Authority issued a $2,313,318 revenue note on behalf of Community Medical Center which was privately placed with GE Capital Public Finance, Inc. Proceeds of the note were used for the lease of an MRI and Tilt-C radiographic equipment, and site improvements for its facilities to accommodate the equipment.

On August 1, 1996, the Authority also issued $20,730,000 of Health Care Revenue Bonds, Series 1996 for Community Medical Center. Net proceeds of $15,439,000 were used to advance refund a portion of bonds issued in 1988 by Missoula County on behalf of the hospital, $4,000,000 were used to remodel the facility for the location of MRI equipment and an outpatient primary care clinic, other miscellaneous remodeling and purchase of equipment. The remaining proceeds were used to establish a reserve fund required by the Bond Indenture and to pay costs associated with issuing the bonds.

On August 1, 1996 the Authority issued bonds for its third Master Loan Program in the amount of $5,085,000. The Authority loaned the proceeds of the bonds to two hospitals and a county for the purposes of financing or refinancing the costs of certain hospital capital improvements or equipment of the respective borrowers. As a related party, the Board of Investments (the "Board"), pursuant to Title 17, Chapter 6, MCA, and the Authority, pursuant to section 90-7-320, MCA, have entered into a capital reserve account agreement for this bond issue. In accordance with the agreement, the Board irrevocably agrees to lend to the Authority funds sufficient to ensure timely payment of the principal and interest of the bonds. The loans, if necessary, will be made by the Board from the Permanent Coal Trust Fund or any other legally available funds administered by the Board. Both the Board and the Authority are administratively attached to the Department of Commerce.

On August 15, 1996, the Authority issued $17,835,000 of bonds for the Mission Ridge project. Proceeds of the bonds will be used to construct and equip an 86-unit independent living and a 40-unit assisted living facility, pay for the development of the project, fund a debt service reserve fund, and pay costs associated with the issuance of the bonds.

On September 1, 1996, the Authority issued $17,120,000 of bonds for Benefis Health Care to defease bonds previously issued, prepay a loan, reimburse the hospital for capital expenditures, fund a debt service reserve fund and pay costs associated with the issuance of the bonds.

7. Litigation

During the 1995 legislative assembly, the Authority was given approval to issue revenue bonds to finance the reconstruction of the Montana State Hospital, a public institution. On July 15, 1996, the Authority was enjoined in a complaint for declaratory and injunctive relief in the United States District Court, District of Montana, Helena Division. The complaint seeks to 1) enjoin the Authority from issuing bonds to finance the reconstruction of the Montana State Hospital, and 2) enjoin the Authority and the Department of Public Health and Human Services from entering into a mortgage and loan agreement. The complaint is pending; however, it does not adversely impact other unrelated bond issues.

8. Retained Earnings

Beginning May 3, 1995, the Authority designated funds equal to 2.5% of the par amount of the outstanding bonds enhanced by the Board of Investments. As of June 30, 1995 and 1996 the total outstanding bonds enhanced by the Board of Investments was $21,625,000 and $26,515,000, respectively. As of June 30, 1995 and 1996 the total reserve requirement was $540,625 and $662,875, respectively.

By policy, in 1993 the Authority designated funds equal to 1.5 times the Authority's annual budget for loans for the Direct Loan Program for fiscal year 1995. All retained earnings were loaned out for the Direct Loan Program in fiscal year 1995, leaving a zero balance. In fiscal year 1996 that policy was amended to $500,000 plus aggregate interest payments and investment earnings. On June 30, 1996 the fund requirement for the program was $532,164 of which $293,348 was outstanding leaving a balance of $238,816.

By policy, the Authority has designated funds equal to 2.5 times the annual Authority budget for operating reserves. For fiscal year 1995 that requirement equaled $441,250 and was funded at $432,543. In fiscal year 1996 that policy was amended to two times the annual budget, which equaled $343,000 and was funded at $248,621.

Agency Response

MONTANA
DEPARTMENT OF COMMERCE

Montana Health Facility Authority
555 Fuller Avenue
PO Box 200125
Helena, Montana 59620-0125

Phone: (406) 444-5435
FAX: (406) 449-6579
TDD: (406) 444-2978

October 17, 1996

OCT 17 1996

Scott Seacat, Legislative Auditor
Legislative Audit Division
State Capitol Building
Helena, MT 59620-1705

Dear Mr. Seacat:

The Authority is very pleased with the unqualified opinion rendered by your auditors in connection with the financial statements contained in the Financial-Compliance Audit for the two fiscal years ended June 30, 1996. Together with the personnel of the Board of Investments and the Department of Commerce we take great pride in the knowledge that the Authority continues to properly conduct its financial operations in compliance with national standards.

Below are the Authority's responses to the recommendations.

Recommendation #1: We recommend the Authority seek legislation to operate the Direct Loan Program or discontinue the program.

Agency Response: We concur. The development and implementation of the Direct Loan Program was at the behest of Montana healthcare facilities. After submission of the program concept to various health care facilities, authority counsel, and agency associates, the Direct Loan Program was adopted by the board. The executive branch has approved draft legislation to be presented to the 1997 legislature which specifically authorizes the Direct Loan Program. If approved, the program will be implemented upon the effective date of the legislation.

Recommendation #2: We recommend the Authority seek legislation to expand the authorized use of revenue or stop funding direct loans.

Agency Response: We concur. The Direct Loan Program is one of the Authority's several low-cost financing options available to Montana health care facilities. Specifically, smaller, rural facilities whose access to affordable capital is significantly limited. Therefore the Authority designated certain revenues to be available for the Direct Loan Program. We have requested and received approval from the executive branch to present to the 1997 legislative assembly amendments to our

respective statutes to specifically authorize the use of the designated fees and other revenues for this purpose. If approved, the Authority will implement the program upon the passage of the proposed legislation.

Recommendation #3: We recommend the Authority seek legislation to clarify the funding of the capital reserve account.

Agency Response: We concur. The intent of the 1991 statutory amendments were to identify what funds would be available for deposit to the capital reserve account. Some funds would require a mandatory deposit and others were intended to be discretionary. The Authority has received approval from the executive branch to include amendments to this section of the statute to clarify which funds are discretionary. The recommendation will be implemented upon approval and passage of the proposed legislation.

Recommendation #4: We recommend the Authority: (A) Revise the fee structure established in rule, to reflect the Authority's practice of charging fees based on estimated cost; and, (B) Establish documentation procedures to ensure equitable consideration regarding the charging, reducing or waiving of fees imposed by the Authority.

Agency Response: We concur. Although satisfactory documentation of fee determination was incomplete, the process of setting fees is directly linked to the Authority's estimate of time and actual disbursements to be expended on each project, initially and thereafter. The Authority will develop and implement a fee policy which is more representative of its current business practice and accordingly document it. The Authority will revise and implement its revised fee policy by June 30, 1997.

We are again grateful to the legislative audit division for its diligent review of the financial operations, and recommendations for program compliance with respective statutes and rules. Their findings and recommendations were insightful and, when implemented, will improve the Authority's operations.

Thank you for your assistance in the Authority's endeavors to sustain the quality of capital financing resources to Montana's health care facilities.

Sincerely,

Jerry R. Hoover
Executive Director